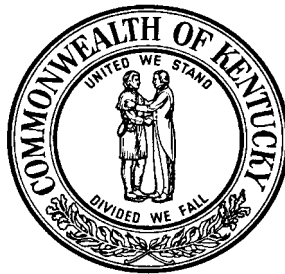


**REPORT OF THE AUDIT OF THE
HENRY COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2009**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable John Logan Brent, Henry County Judge/Executive
Members of the Henry County Fiscal Court

The enclosed report prepared by Percy and Gray, PSC, Certified Public Accountants, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Henry County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements.

We engaged Percy and Gray, PSC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Percy and Gray, PSC, evaluated the Henry County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HENRY COUNTY FISCAL COURT

June 30, 2009

Peercy and Gray, PSC has completed the audit of the Henry County Fiscal Court for fiscal year ended June 30, 2009. We have issued unqualified opinions on the governmental activities, each major fund, and aggregate remaining fund information.

Financial Condition:

The fiscal court had net assets of \$9,792,462 on June 30, 2009. The fiscal court had unrestricted net assets of \$4,843,774 in its governmental activities on June 30, 2009. The fiscal court had total debt principal on June 30, 2009 of \$611,722 with \$136,011 due within the next year.

Report Comments:

- There Were Several Errors Made In The Preparation Of The Financial Statements
- The Schedule of Federal Financial Assistance Did Not Include All Federal Awards Expended

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities as of June 30, 2009.

<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITOR’S REPORT.....	1
HENRY COUNTY OFFICIALS	3
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	10
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	15
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES	
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	19
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND	
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	23
NOTES TO FINANCIAL STATEMENTS.....	25
BUDGETARY COMPARISON SCHEDULES	37
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	40
COMBINING BALANCE SHEET -	
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	44
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES	
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	48
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND	
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS	
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	53
COMMENTS AND RECOMMENDATIONS.....	57
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



PEERCY AND GRAY, PSC

Certified Public Accountants

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To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable John Logan Brent, Henry County Judge/Executive

Members of the Henry County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Henry County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Henry County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Henry County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Henry County, Kentucky, as of June 30, 2009, and the respective changes in financial position, thereof for the year then ended in conformity with the modified cash basis of accounting.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable John Logan Brent, Henry County Judge/Executive
Members of the Henry County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Henry County, Kentucky's basic financial statements. The accompanying combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2009 on our consideration of Henry County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- There Were Several Errors Made In The Preparation Of The Financial Statements
- The Schedule of Federal Financial Assistance Did Not Include All Federal Awards Expended

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Percy and Gray, PSC

September 30, 2009

HENRY COUNTY OFFICIALS

For The Year Ended June 30, 2009

Fiscal Court Members:

John Logan Brent	County Judge/Executive
Jerry Beasley	Magistrate
David Brown	Magistrate
Guy Coombs	Magistrate
Michael Fisher	Magistrate
Nicholas Hawkins	Magistrate
Adam West	Magistrate

Other Elected Officials:

Virginia Harrod	County Attorney
J.C. Suter	Jailer
Juanita Lashley	County Clerk
Mary Lou Roberts	Circuit Court Clerk
Danny Cravens	Sheriff
Jason Scriber	Property Valuation Administrator
James Pollard	Coroner

Appointed Personnel:

Mary A. Scriber	County Treasurer
Peggy V. Bryant	Finance Officer

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HENRY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

HENRY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 4,843,774
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land	646,782
Buildings	2,019,739
Equipment	606,780
Vehicles	518,463
Infrastructure	1,768,646
Total Noncurrent Assets	<u>5,560,410</u>
Total Assets	<u>10,404,184</u>
LIABILITIES	
Current Liabilities:	
Financing Obligation	136,011
Noncurrent Liabilities:	
Financing Obligation	<u>475,711</u>
Total Liabilities	<u>611,722</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	4,948,688
Unrestricted	<u>4,843,774</u>
Total Net Assets	<u><u>\$ 9,792,462</u></u>

The accompanying notes are an integral part of the financial statements.

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HENRY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009

HENRY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Received</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General Government	\$ 2,086,517	\$ 874,243	\$ 384,088	\$
Protection to Persons and Property	1,211,980		194,136	
General Health and Sanitation	180,506		28,347	
Social Services	44,245			
Recreation and Culture	121,349	18,695	500	
Roads	849,712		1,044,476	
Interest on Long Term Debt	25,866			
Capital Projects	31,331			
Total Governmental Activities	<u>\$ 4,551,506</u>	<u>\$ 892,938</u>	<u>\$ 1,651,547</u>	<u>\$ 0</u>

General Revenues:

Taxes:

Real Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Miscellaneous Revenues

Interest Earned

Gain on Sale of Asset

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

HENRY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Net (Expenses) Revenues
and Changes in Net Asset

Governmental
Activities

\$ (828,186)
 (1,017,844)
 (152,159)
 (44,245)
 (102,154)
 194,764
 (25,866)
(31,331)

(2,007,021)

725,733
 103,747
 535,724
 113,422
 763,774
 58,576
70,834

2,371,810

364,789
9,427,673

\$ 9,792,462

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HENRY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

HENRY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and Cash Equivalents	\$ 2,569,151	\$ 2,057,533	\$ 11,486	\$ 205,604	\$ 4,843,774
Total Assets	<u>\$ 2,569,151</u>	<u>\$ 2,057,533</u>	<u>\$ 11,486</u>	<u>\$ 205,604</u>	<u>\$ 4,843,774</u>
FUND BALANCES					
Unreserved:					
General Fund	\$ 2,569,151	\$	\$	\$	\$ 2,569,151
Special Revenue Funds	<u></u>	<u>2,057,533</u>	<u>11,486</u>	<u>205,604</u>	<u>2,274,623</u>
Total Fund Balances	<u>\$ 2,569,151</u>	<u>\$ 2,057,533</u>	<u>\$ 11,486</u>	<u>\$ 205,604</u>	<u>\$ 4,843,774</u>

**Reconciliation of the Balance Sheet-Governmental Funds
to the Statement of Net Assets:**

Total Fund Balances	\$ 4,843,774
Amounts Reported For Governmental Activities in the Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	8,053,216
Accumulated Depreciation	(2,492,806)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	<u>(611,722)</u>
Net Assets of Governmental Activities	<u>\$ 9,792,462</u>

The accompanying notes are an integral part of the financial statements.

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HENRY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

HENRY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	General Fund	Road Fund	Jail Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 1,057,471	\$	\$	\$	\$ 1,057,471
Excess Fees	113,422				113,422
Licenses and Permits	307,733				307,733
Intergovernmental	384,088	981,783	131,378	154,298	1,651,547
Charges for Services	874,243			18,695	892,938
Miscellaneous	758,159	2,223	1,998	1,394	763,774
Interest	28,823	28,159	266	1,328	58,576
Total Revenues	<u>3,523,939</u>	<u>1,012,165</u>	<u>133,642</u>	<u>175,715</u>	<u>4,845,461</u>
EXPENDITURES					
General Government	1,270,969			90,838	1,361,807
Protection to Persons and Property	620,497		505,201	40,000	1,165,698
General Health and Sanitation	149,626			30,880	180,506
Social Services	1,200			30,076	31,276
Recreation and Culture	82,071			19,669	101,740
Roads		551,595			551,595
Debt Service	72,427	7,757			80,184
Capital Projects	410,837	457,362			868,199
Administration	555,185	120,556	14,907	2,716	693,364
Total Expenditures	<u>3,162,812</u>	<u>1,137,270</u>	<u>520,108</u>	<u>214,179</u>	<u>5,034,369</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>361,127</u>	<u>(125,105)</u>	<u>(386,466)</u>	<u>(38,464)</u>	<u>(188,908)</u>
Other Financing Sources (Uses)					
Financing Obligation Proceeds	76,940	19,000			95,940
Proceeds from Sale of Assets	89,000				89,000
Transfers from Other Funds	182,125	(182,125)	390,000	14,085	404,085
Transfers to Other Funds	(404,085)				(404,085)
Total Other Financing Sources (Uses)	<u>(56,020)</u>	<u>(163,125)</u>	<u>390,000</u>	<u>14,085</u>	<u>184,940</u>
Net Change in Fund Balances	305,107	(288,230)	3,534	(24,379)	(3,968)
Fund Balances - Beginning	2,264,044	2,345,763	7,952	229,983	4,847,742
Fund Balances - Ending	<u>\$ 2,569,151</u>	<u>\$ 2,057,533</u>	<u>\$ 11,486</u>	<u>\$ 205,604</u>	<u>\$ 4,843,774</u>

The accompanying notes are an integral part of the financial statements.

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HENRY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

HENRY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$	(3,968)
--	----	---------

Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of those Assets Is Allocated Over their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay		838,368
Depreciation Expense		(415,946)
Book Value of Disposed Assets		(19,666)

Financing Obligation Proceeds are Considered a Current Financial Resource to Governmental Funds While Financing Obligation Payments Are Expensed in the Governmental Funds as a Use of Current Financial Resources. These transactions, however, have no effect on net assets.

Financing Obligations Principal Payments		61,941
Financing Obligations Proceeds		(95,940)

Change in Net Assets of Governmental Activities	\$	364,789
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**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	25
NOTE 2.	DEPOSITS	29
NOTE 3.	CAPITAL ASSETS.....	30
NOTE 4.	SHORT-TERM DEBT.....	31
NOTE 5.	LONG-TERM DEBT	31
NOTE 6.	EMPLOYEE RETIREMENT SYSTEM	34
NOTE 7.	INSURANCE	34

HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Henry County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The county has no component units.

C. Henry County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Henry County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Henry County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities normally are supported by taxes and intergovernmental revenues.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Governmental Funds

The government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government and transfers from the General Fund. The Department of Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

**HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Federal Grant Fund, Solid Waste Grant Fund, Emergency 911-EMS Fund, Senior Citizens Fund and Fair Fund.

Special Revenue Funds:

The Road Fund, Senior Citizens Fund, Jail Fund, Local Government Economic Assistance Fund, Federal Grant Fund, Solid Waste Grant Fund, Emergency 911-EMS Fund, and Fair Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	25,000	10-75
Machinery and Equipment	5,000	3-25
Infrastructure	20,000	10-25

G. Long-term Obligations

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, this county does not record encumbrances.

**HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organization

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following is considered a related organization of Henry County Fiscal Court: The Henry County Library. The fiscal court's accountability for this organization, however, does not extend beyond making these appointments.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 664,948	\$	\$ (18,166)	\$ 646,782
Total Capital Assets Not Being Depreciated	664,948		(18,166)	646,782
Capital Assets, Being Depreciated:				
Buildings	2,352,930	107,128		2,460,058
Equipment	803,464	174,498	(7,500)	970,462
Vehicles	1,249,096	165,777		1,414,873
Infrastructure	2,170,076	390,965		2,561,041
Total Capital Assets Being Depreciated	6,575,566	838,368	(7,500)	7,406,434
Less Accumulated Depreciation For:				
Buildings	(391,494)	(48,825)		(440,319)
Equipment	(324,915)	(44,767)	6,000	(363,682)
Vehicles	(830,162)	(66,248)		(896,410)
Infrastructure	(536,289)	(256,106)		(792,395)
Total Accumulated Depreciation	(2,082,860)	(415,946)	6,000	(2,492,806)
Total Capital Assets, Being Depreciated, Net	4,492,706	422,422	(1,500)	4,913,628
Governmental Activities Capital Assets, Net	<u>\$5,157,654</u>	<u>\$ 422,422</u>	<u>\$ (19,666)</u>	<u>\$ 5,560,410</u>

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 31,346
Protection to Persons and Property	53,905
Recreation and Culture	19,609
Social Services	12,969
Roads, Including Depreciation of General Infrastructure Assets	<u>298,117</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 415,946</u>

HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

Note 4. Short-term Debt

On January 9, 2009, Henry County Fiscal Court entered into a financial obligation with the Kentucky Association of Counties Leasing Trust Program for the purchase of a paver for the Road Department in the amount of \$19,000. The obligation is to be paid in full on December 20, 2009.

On January 26, 2009, Henry County Fiscal Court entered into a financial obligation with the Kentucky Association of Counties Leasing Trust Program for the purchase of an ambulance in the amount of \$54,680. The obligation is to be paid in full on January 20, 2010.

Short-term liability activity for the year ended June 30, 2009 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$	\$ 73,680	\$	\$ 73,680	\$ 73,680
Governmental Activities					
Short-term Liabilities	\$ 0	\$ 73,680	\$ 0	\$ 73,680	\$ 73,680

Note 5. Long-term Debt

A. Financial Obligation - Courthouse Annex

On October 29, 1999 Henry County Fiscal Court entered into a financial obligation agreement with the Kentucky Association of Counties Leasing Trust Program for the purchase of the Courthouse Annex county office building in the amount of \$375,000. The obligation (\$356,417) was refinanced on May 7, 2001, with the terms being changed to a variable interest rate on the unpaid principal, and with monthly payments due the 20th of each month. The obligation is to be paid in full on May 20, 2020. The principal balance was \$238,273 as of June 30, 2009. The following table shows the scheduled interest (based upon an interest rate of 4%) and principal amounts during the next five years and thereafter:

	Fiscal Year Ending June 30	Scheduled Interest	Scheduled Principal
✓	2010	8,780	16,820
	2011	8,132	17,683
✓	2012	7,465	18,592
✓	2013	6,750	19,546
	2014	6,003	20,550
	2015-2019	17,391	119,698
	2020	628	25,384
Totals		\$ 55,149	\$ 238,273

HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

B. Financial Obligation - Track Loader

On November 24, 2004, Henry County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$79,011. The purpose of the financing was for the purchase of a track loader. The term for this agreement was 10 years with the balance to be paid in full July 20, 2015. The principal balance was \$59,011 as of June 30, 2009. The following table shows the scheduled remaining interest and principal amounts due.

Fiscal Year Ending June 30	Scheduled Interest	Scheduled Principal
2010	2,105	5,000
2011	1,913	5,000
2012	1,724	5,000
2013	1,357	10,000
2014	975	10,000
2015-2016	641	24,011
Totals	\$ 8,715	\$ 59,011

C. Financial Obligation - Land Purchased

On February 8, 2008, Henry County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$302,782. The purpose of the financing was for the purchase of land for the building of a senior citizen center, a park and possibly a new health department building. The term for this agreement was 10 years with the balance to be paid in full January 20, 2017. The principal balance was \$212,782 as of June 30, 2009. The following table shows the scheduled remaining interest and principal amounts due.

Fiscal Year Ending June 30	Scheduled Interest	Scheduled Principal
2010	10,587	20,000
2011	9,492	25,000
2012	8,255	25,000
2013	6,997	25,000
2014	5,746	25,000
2015-2017	8,445	92,782
Totals	\$ 49,522	\$ 212,782

HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

D. Financial Obligation - Sheriff's Vehicles

On December 28, 2007, Henry County Fiscal Court entered into an agreement with the Farmers Bank and Capital Trust Company for \$41,044. The purpose of the financing was for the purchase of vehicles for the Sheriff. The term for this agreement was 3 years with the balance to be paid in full January 28, 2010. The principal balance was \$13,340 as of June 30, 2009. The following table shows the scheduled remaining interest and principal amounts due.

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2010	1,045	13,340
Totals	<u>\$ 1,045</u>	<u>\$ 13,340</u>

E. Financial Obligation - Sheriff Vehicle

On April 1, 2009, the Sheriff's Department and Henry County Fiscal Court entered into an agreement with the Farmers Bank and Capital Trust Company for \$22,260. The purpose of the financing was for the purchase of vehicles for the Sheriff. The term for this agreement was 3 years with the balance to be paid in full April, 2012. The principal balance was \$14,637 as of June 30, 2009. The following table shows the scheduled remaining interest and principal amounts due.

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2010	551	7,171
2011	255	7,466
Totals	<u>\$ 806</u>	<u>\$ 14,637</u>

F. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
Financing Obligations	<u>\$ 577,723</u>	<u>\$ 22,260</u>	<u>\$ 61,941</u>	<u>\$ 538,042</u>	<u>\$ 62,331</u>

HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan, public retirement system, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 29.50 percent. The county's contribution for FY 2007 was \$221,564, FY 2008 is \$266,803, and FY 2009 is \$244,093.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Insurance

For the fiscal year ended June 30, 2009, Henry County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

HENRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009

HENRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2009

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,002,001	\$ 1,002,001	\$ 1,057,471	\$ 55,470
Excess Fees	80,000	80,000	113,422	33,422
Licenses and Permits	210,000	210,000	307,733	97,733
Intergovernmental Revenue	637,021	637,021	368,952	(268,069)
Charges for Services	651,000	651,000	874,243	223,243
Miscellaneous	802,937	911,297	840,123	(71,174)
Interest	42,000	42,000	28,823	(13,177)
Total Revenues	3,424,959	3,533,319	3,590,767	57,448
EXPENDITURES				
General Government	1,558,590	1,611,938	1,377,855	234,083
Protection to Persons and Property	666,225	695,738	671,959	23,779
Social Services	59,000	59,000	10,200	48,800
General Health and Sanitation	445,500	445,500	149,626	295,874
Recreation and Culture	89,380	97,420	88,633	8,787
Debt Service	63,500	63,500	56,978	6,522
Capital Projects	105,001	199,950	173,077	26,873
Administration	797,000	718,548	639,789	78,759
Total Expenditures	3,784,196	3,891,594	3,168,117	723,477
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(359,237)	(358,275)	422,649	780,925
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds	28,500	28,500		(28,500)
Transfers from Other Funds	182,125	182,125	182,125	
Transfers to Other Funds	(457,504)	(437,504)	(390,000)	47,504
Total Other Financing Sources (Uses)	(246,879)	(226,879)	(207,875)	19,004
Net Changes in Fund Balance	(606,116)	(585,154)	214,774	799,928
Fund Balance - Beginning	606,116	626,116	2,265,199	1,639,083
Fund Balance - Ending	\$ 0	\$ 40,962	\$ 2,479,973	\$ 2,439,011

HENRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 985,683	\$ 1,109,293	\$ 981,783	\$ (127,510)
Miscellaneous	1,000	1,000	2,223	1,223
Interest	63,000	63,000	28,159	(34,841)
Total Revenues	1,049,683	1,173,293	1,012,165	(161,128)
EXPENDITURES				
Roads	853,021	1,004,413	997,714	6,699
Administration	168,900	141,118	137,802	3,316
Total Expenditures	1,021,921	1,145,531	1,135,516	10,015
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	27,762	27,762	(123,351)	(151,113)
OTHER FINANCING SOURCES (USES)				
Transfers to Other Funds	(182,125)	(182,125)	(182,125)	
Total Other Financing Sources (Uses)	(182,125)	(182,125)	(182,125)	
Net Changes in Fund Balance	(154,363)	(154,363)	(305,476)	(151,113)
Fund Balance - Beginning	154,363	154,363	2,345,763	2,191,400
Fund Balance - Ending	\$ 0	\$ 0	\$ 2,040,287	\$ 2,040,287

HENRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 113,500	\$ 113,500	\$ 131,378	\$ 17,878
Charges for Services	1	1		(1)
Miscellaneous	1,500	1,500	1,998	498
Interest	1,000	1,000	266	(734)
Total Revenues	116,001	116,001	133,642	17,641
EXPENDITURES				
Protection to Persons and Property	537,300	557,300	505,201	52,099
Administration	32,590	32,590	21,368	11,222
Total Expenditures	569,890	589,890	526,569	63,321
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(453,889)	(473,889)	(392,927)	80,962
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	453,889	473,889	390,000	(83,889)
Total Other Financing Sources (Uses)	453,889	473,889	390,000	(83,889)
Net Changes in Fund Balance			(2,927)	(2,927)
Fund Balance - Beginning			7,952	7,952
Fund Balance - Ending	\$ 0	\$ 0	\$ 5,025	\$ 5,025

HENRY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Reconciliation of the General Fund

Total Revenues-Budgetary Basis	\$ 3,590,767
To Reclass Proceeds From Sale of Asset	(89,000)
To Record Emergency Management Account Transactions	15,136
To Correct Prior Year Error	<u>7,036</u>
Total Revenues-Modified Cash Basis	<u>\$ 3,523,939</u>
Total Expenditures-Budgetary Basis	\$ 3,168,117
To Record Capital Purchase Not Budgeted	54,680
To Record Capital Purchase By Sheriff Not Budgeted	22,260
To Record Payroll Account Activity	(84,604)
To Record Emergency Management Account Transactions	<u>2,359</u>
Total Expenditures-Modified Cash Basis	<u>\$ 3,162,812</u>
Total Other Financing Sources and Uses-Budgetary Basis	\$ (207,875)
To Reclass Proceeds From Sale of Asset	89,000
To Record Emergency Management Account Transactions	(14,085)
To Record Debt Proceeds By Sheriff Not Budgeted	22,260
To Record Debt Proceeds Not Budgeted	<u>54,680</u>
Total Other Financing Sources and Uses-Modified Cash Basis	<u>\$ (56,020)</u>
Fund Balance - Beginning-Budgetary Basis	\$ 2,265,199
Total Other Financing Sources and Uses-Budgetary Basis	5,881
To Correct Prior Year Error	<u>(7,036)</u>
Total Fund Balance-Beginning	<u>\$ 2,264,044</u>

HENRY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2009
(Continued)

Reconciliation of the Road Fund

Total Expenditures-Budgetary Basis	\$ 1,135,516
To Record Capital Purchase Not Budgeted	19,000
To Record Payroll Account Activity	<u>(17,246)</u>
Total Expenditures-Modified Cash Basis	<u>\$ 1,137,270</u>
 Total Other Financing Sources and Uses-Budgetary Basis	 \$ (182,125)
To Record Debt Proceeds Not Budgeted	<u>19,000</u>
Total Other Financing Sources and Uses-Modified Cash Basis	<u>\$ (163,125)</u>

Reconciliation of the Jail Fund

Total Expenditures-Budgetary Basis	\$ 526,569
To Record Payroll Account Activity	<u>(6,461)</u>
Total Expenditures-Modified Cash Basis	<u>\$ 520,108</u>

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**HENRY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2009

HENRY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2009

	LGEA Fund	Federal Grant Fund	Solid Waste Grant Fund
ASSETS			
Cash and Cash Equivalents	\$ 50,517	\$ 14,215	\$ 40,071
Total Assets	<u>\$ 50,517</u>	<u>\$ 14,215</u>	<u>\$ 40,071</u>
FUND BALANCES			
Unreserved:			
Special Revenue Funds	\$ 50,517	\$ 14,215	\$ 40,071
Total Fund Balances	<u>\$ 50,517</u>	<u>\$ 14,215</u>	<u>\$ 40,071</u>

The accompanying notes are an integral part of the financial statements.

HENRY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2009
(Continued)

Emergency 911-EMS Fund	Senior Citizens Fund	Fair Fund	Total Non-Major Governmental Funds
<u>\$ 96,184</u>	<u>\$ 1</u>	<u>\$ 4,616</u>	<u>\$ 205,604</u>
<u><u>\$ 96,184</u></u>	<u><u>\$ 1</u></u>	<u><u>\$ 4,616</u></u>	<u><u>\$ 205,604</u></u>
<u>\$ 96,184</u>	<u>\$ 1</u>	<u>\$ 4,616</u>	<u>\$ 205,604</u>
<u><u>\$ 96,184</u></u>	<u><u>\$ 1</u></u>	<u><u>\$ 4,616</u></u>	<u><u>\$ 205,604</u></u>

The accompanying notes are an integral part of the financial statements.

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HENRY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2009

HENRY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2009

	LGEA Fund	Federal Grant Fund	Solid Waste Grant Fund
REVENUES			
Intergovernmental	\$ 62,693	\$	\$ 28,347
Charges for Services			
Miscellaneous		1,300	
Interest	274	110	223
Total Revenues	<u>62,967</u>	<u>1,410</u>	<u>28,570</u>
EXPENDITURES			
General Government		1,283	
Protection to Persons and Property	40,000		
General Health and Sanitation	2,303		28,577
Social Services	29,576		
Recreation and Culture	733		
Administration	91		523
Total Expenditures	<u>72,703</u>	<u>1,283</u>	<u>29,100</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(9,736)</u>	<u>127</u>	<u>(530)</u>
OTHER FINANCING SOURCES (USES)			
Transfers from Other Funds	<u> </u>	<u> </u>	<u> </u>
Total Other Financing Sources (Uses)	<u> </u>	<u> </u>	<u> </u>
Net Change in Fund Balances	(9,736)	127	(530)
Fund Balances - Beginning	60,253	14,088	40,601
Fund Balances - Ending	<u>\$ 50,517</u>	<u>\$ 14,215</u>	<u>\$ 40,071</u>

The accompanying notes are an integral part of the financial statements.

HENRY COUNTY

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

Other Supplementary Information

For The Year Ended June 30, 2009

(Continued)

Emergency 911-EMS Fund	Senior Citizens Fund	Fair Fund	Total Non-Major Governmental Funds
\$ 62,758	\$ 500	\$	\$ 154,298
		18,695	18,695
		94	1,394
632		89	1,328
63,390	500	18,878	175,715
89,555			90,838
			40,000
			30,880
	500		30,076
		18,936	19,669
2,102			2,716
91,657	500	18,936	214,179
(28,267)		(58)	(38,464)
14,085			14,085
14,085			14,085
(14,182)		(58)	(24,379)
110,366	1	4,674	229,983
\$ 96,184	\$ 1	\$ 4,616	\$ 205,604

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



PEERCY AND GRAY, PSC

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Louisville, Kentucky 40299

Phone: (502) 493-1090

FAX: (502) 493-7231

The Honorable John Logan Brent, Henry County Judge/Executive
Members of the Henry County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Henry County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated September 30, 2009. Henry County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Henry County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Henry County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Henry County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financing reporting.

- There Were Several Errors Made In The Preparation Of The Financial Statements

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Henry County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Schedule of Federal Financial Assistance Did Not Include All Federal Awards Expended

The Henry County Judge/Executive's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the responses and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Peercy and Gray, PSC

September 30, 2009

**HENRY COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2009

**HENRY COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2009

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

There Were Several Errors Made In The Preparation Of The Financial Statements

During the course of our audit we determined that the fourth quarter financial report was not prepared accurately for all funds. The fourth quarter report underlies both the fund financial statements and the government wide financial statements. Failure to prepare an accurate fourth quarter financial report results in an inability to prepare the required financial statements.

- The fund balance for the general fund did not agree with the consolidated bank reconciliation and required an adjustment in the amount of \$7,036 to correct a prior year error.
- The transactions of the Emergency Management accounts were not properly included in the general fund. The receipts of \$15,136 and disbursements of \$16,445 were added to the general fund balances. Furthermore, the Treasurer does not receive or review the bank statements of the Emergency Management accounts.
- The revolving Payroll account had a remaining balance of \$108,311, and was allocated to the General, Road and Jail Fund on the audited financial statements.
- During our tests of revenue, auditors noted 2 deposits recorded in incorrect revenue accounts.
- Fixed/capital asset additions in the amount of \$838,368 were not added to the fixed/capital asset listing.
- Fixed/capital asset deletions in the amount of \$25,666 were not removed from the fixed/capital asset listing.

We recommend that the Treasurer verify that the prior year fund balance in the General Fund on the quarterly report equals the cash balance on the bank reconciliation at the end of the prior year. We also recommend that the Emergency Management activity should be recorded within the General Fund. We recommend that the general ledger detail should be reviewed periodically for accuracy. We recommend that the county transfer the payroll balance back to the funds, and reconcile the payroll account to a zero balance, or close, in the future.

County Judge/Executive John Brent's Response: All issue have been addressed and will be completed as personnel allows

NONCOMPLIANCE

The Schedule of Federal Financial Assistance Did Not Include All Federal Awards Expended

The County did not prepare a Schedule of Expenditures of Federal Awards. The list should have included the following:

- Office of Homeland Security \$14,085
- KY PRIDE Program \$28,347

We recommend that procedures be implemented to analyze all intergovernmental funds received to assess which funds are products of federal award programs.

County Judge/Executive John Brent's Response: Will be more aware of Federal Awards.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

HENRY COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2009**


Appendix A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
PROGRAM


HENRY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2009

The Henry County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer

